

Key Person Insurance

As a business owner, you know the importance of protecting your business from risks such as damaged property, personal injury to employees and others with liability coverage. However, protecting your business also means protecting one of your most valuable assets – your key employees.

The death of a key person may subject the business to substantial economic loss due to

- *Reduction in earnings (impact on profits)*
- *Disruption of management*
- *Impairment of credit*
- *Possible loss of customers to competition*
- *Cost and time involved in finding and training a replacement*

Examples of Key Employees might include

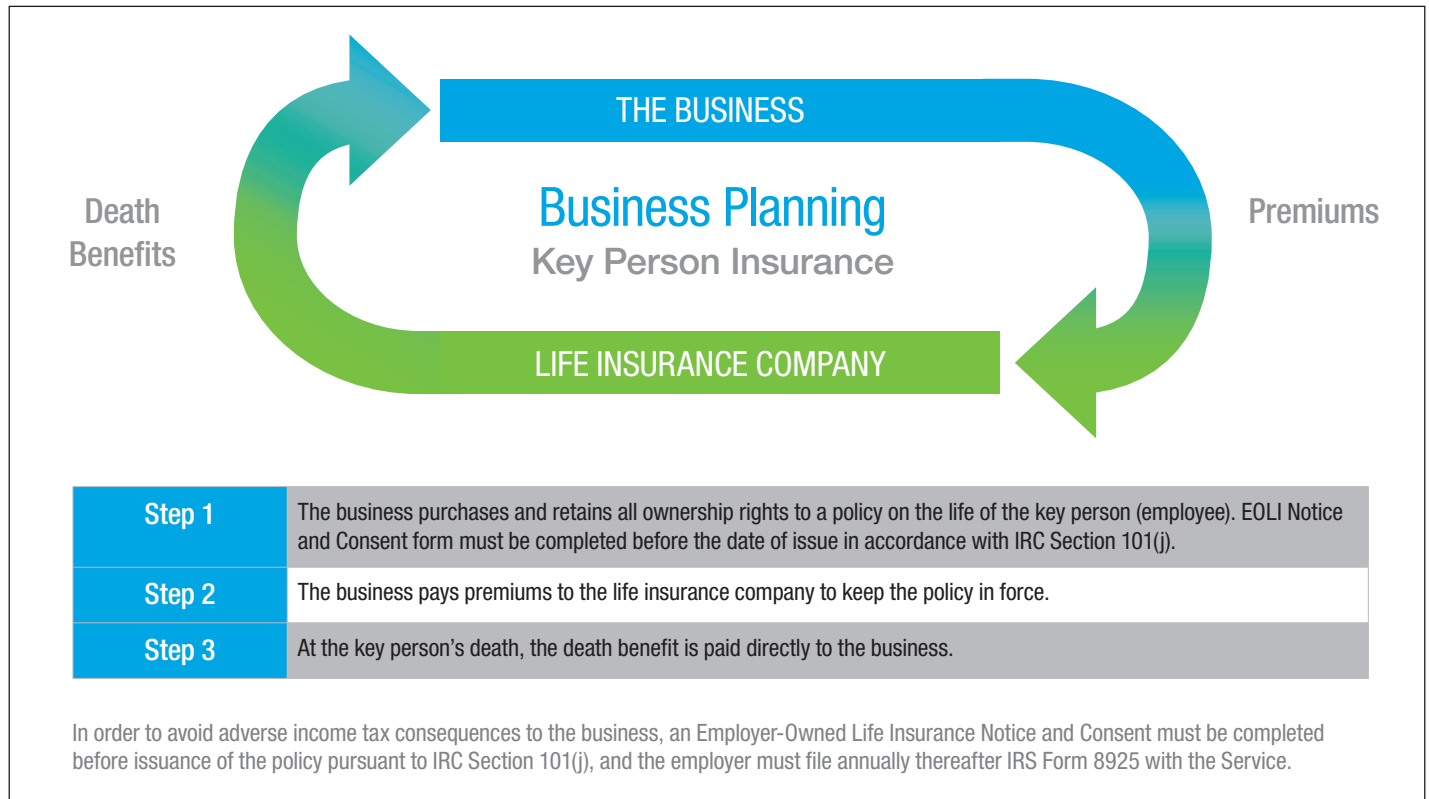
- *Top sales people*
- *Key executives or proven managers*
- *Hard-to-replace specialists (such as engineers, R&D scientists, etc.)*
- *Skilled financial people*

Insurance on the lives of your key people can be a cost-effective means of providing funding to help recover from the death of a person who is critical to the success of your business. The business should be the premium payor, owner, and beneficiary of the policy. Premium payments are not tax-deductible. However, death benefits are received tax free by your business.

These materials contain statements regarding the tax treatment of certain financial assets and transactions. These statements represent only our current understanding of the law in general and are not to be considered legal or tax advice by purchasers. Business tax rules and the tax treatment of life insurance are subject to change at any time. Neither Protective Life nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax adviser regarding their individual situations before making any tax related decisions.



How it Works.



If a permanent life insurance plan is used for the coverage, policy cash values may grow on a tax-deferred basis. Cash values may be accessed by the business tax free by taking withdrawals to basis and then switching to policy loans thereafter. It is important to note that both loans and withdrawals from a permanent life insurance policy may be subject to penalties and fees and, along with any accrued loan interest, will reduce the policy's account value and death benefit.

The following guidelines may assist in determining the amount of insurance needed to cover the loss of a key person:

- **Capitalization of Salary** – *This method uses a capitalization factor between three and ten times annual salary (five times being the average). The more technical or difficult the skill is to obtain, the higher the capitalization factor should be.*
- **One-Year Profit Method** – *The amount of life insurance purchased is equal to one year's business profit associated with the experience and performance of the key person. This buys the business one year to find and train a replacement.*

For more information, contact
your Financial Representative.

Life insurance is issued by Protective Life Insurance Company,
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www.protective.com

Not a Deposit	Not Insured by Any Federal Government Agency	
No Bank Guarantee	Not FDIC Insured	May Lose Value